



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/10/2002

GAIN Report #HK2040

Hong Kong

Market Development Reports

The West Coast Dispute Ripples HK's Food Markets 2002

Approved by:

Lloyd S. Harbert & George D. Ferris

U.S. Consulate, Hong Kong

Prepared by:

Caroline Yuen

Report Highlights:

Given Hong Kong's huge demand for U.S. agricultural and food products, the dock workers' strike on the west coast of the United States which lasted over 10 days certainly has negatively affected U.S. exports. Export volume was reduced in the past 10 days. Most Hong Kong importers place orders weekly or biweekly, and the strike halted this normal trading pattern.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Hong Kong [HK1], HK

The strike of United States west coast dock workers is now over for the time being but it stopped the flow of most American agricultural exports to Hong Kong for over ten days. The last shipment of products departing the U.S. west coast before the strike arrived in Hong Kong one or two days ago. Additional shipments are expected to arrive by the end of October. Certain food sectors felt the repercussions long before the last shipment was due to Hong Kong. Prices have risen. In many cases the surge in prices is due to expectation rather than short supply. As a consignment usually takes about 2 weeks to reach Hong Kong from the west coast of the United States, the supplies of U.S. agricultural products may be reduced from about 2 weeks after the strike started. This report gives a quick snapshot of certain food markets which are most likely affected by the strike.

In 2001, US agricultural exports to Hong Kong amounted to US\$1.4 billion. On average, about US\$4 million worth of products are exported to Hong Kong daily, most of which are transported by sea from the west coast of the United States.

Fruits

At the importer level, the strike is a blessing in disguise. Importers said that this time of the year, after the mid-autumn festival, is a low season for fruits. The market usually cannot afford high prices. Currently importers still have large stocks left over from the mid-autumn festival. One importer cited that gala apples are currently oversupplied. The strike does help them to get rid of the stock left over from the mid-autumn festival at very good prices. They generally believed that the strike would not last too long but they are concerned that fruits arriving Hong Kong right after the strike will be of poor quality as they may have been held up at the docks for weeks.

On the other hand, wholesalers said that the market is short of US fruit supplies particularly for oranges, grapes, and honeydew melons. Wholesalers do not know how much stock importers hold. Wholesale prices have surged. For example, prices for oranges surged from HK\$100/box (113 oranges per box) to HK\$180/box; grapes from HK\$120/box (28 lbs) to HK\$200/box. As the price of grapes in Hong Kong is so high, grapes which have been trans-shipped to China have now been brought back for the Hong Kong market.

The substitution effect has been at work to a certain extent. Orders for oranges from Australia and South Africa have increased. Due to the demand from hotel and restaurants, the market can afford honeydew melons coming from Australia by air, with wholesale prices at HK\$160/box. (The wholesale prices of US honeydew melons stand at HK\$60/box)

Vegetables

The largest importer of US vegetables revealed that he received his last shipment on Oct 8 and his next shipment will arrive on Oct. 24. The prices of US vegetables including lettuce, celery and broccoli have risen in the past week and will stay high for the next two weeks while there are no new supplies from the U.S. The wholesale prices of U.S. frozen mixed vegetables rose from HK\$3.3/lb to HK\$4.8/lb. As fresh vegetables are an extremely perishable food item, he expects his consignments which have been lying in the U.S. docks for two weeks have spoiled. He is not sure whether the higher prices he is charging his customers now can cover the losses he is

expecting. This importer is ordering supplies from the U.S. weekly but he may stop his orders if the labor contract dispute cannot reach a solution within 80 days. Some other importers who have not been relying on U.S. supplies solely have already shifted their procurement source to Australia. Australia has supplies of lettuce and asparagus this time of the year.

Soybean Meal

Prices of U.S. soybean meal have increased over 7%. Some local farmers even alerted the Hong Kong government over the inadequate supplies of soybean meal and the escalating prices. The U.S. is a key supplier of high protein soybean meal for local farms. While China is also a major supplier of soybean meal, the protein content of its soybean meal is low. Therefore, soybean meal from China cannot substitute for US supplies even though the latter is in short supply. There are only a few Hong Kong companies importing soybean meal to Hong Kong. One major company imports about 25 TEUs per week. Because of the strike, this company alone has cut supplies by over 1000 MT in two weeks.

Meat

The impact of the strike on Hong Kong's poultry market is minimal and prices did not rise significantly for a number of reasons. First, there are sufficient stocks in Hong Kong largely due to the back-up here of poultry earmarked for re-export to China. Secondly, a certain portion of U.S. poultry supplies comes from the east coast. Thirdly, the Hong Kong market is equally receptive to Brazilian products and any reduced supply from the U.S. is quickly replaced with Brazilian products. Importers said that they are very likely to increase orders from Brazil until the dispute is fully settled in order to avoid any unnecessary loss caused by continued strike.

US beef is niche item which is not readily replaced by supplies from other countries. Importers are not prepared to switch to other supplying countries for beef. They will probably raise wholesale prices as a result of short supply. In fact, US beef products have already risen about 10%. Shortrib, in particular, is in big demand.

Conclusion

Given Hong Kong's huge demand for U.S. agricultural and food products, the dock workers' strike on the west coast of the United States which lasted over 10 days certainly has negatively affected U.S. exports. Export volume was reduced in the past 10 days. Most Hong Kong importers place orders weekly or biweekly, and the strike halted this normal trading pattern.

Hong Kong importers may not suffer because they can charge higher prices for their stocks, so it is consumers in the end who will be most negatively affected. Hong Kong importers who have contracts with their clients to provide U.S. food supplies have suffered great losses. They are obliged to deliver products to their clients such as hotels and restaurants on time. Because of the strike of dock workers, they are reluctant to have their consignments sent to Hong Kong by air. In the end, they bear huge losses due to the increased transportation cost, which cannot be passed onto their clients.

The impact of the strike on U.S. agricultural exports to Hong Kong varies with the nature of the product. In general, the wholesale prices of most U.S. supplies have risen. In some cases, it is the expectation of short supplies that have driven prices up even though there are stock supplies in Hong Kong. Wholesalers tended to obtain sufficient supplies when they did not have a clue when the strike would end, while importers manipulated the supplies. Inevitably, prices are up for consumers. For certain products, when U.S. supplies are very unique and a must, such as soybean meal, importers did not try to source supplies from other countries. When the strike is over, normal business may resume. On the other hand, those U.S. exports which are readily replaceable by supplies from other countries will suffer the most negative affects. Substitution effect is strong for products like oranges, poultry and vegetables when supplies from other countries are available and very competitively priced. Importers revealed that they will be very careful in placing future orders with U.S. suppliers unless the dispute is completely settled. It is very unlikely that they will place normal orders throughout the time when the executive order to have the ports opened for 80 days continues. For those products like U.S. beef, which is a niche item and hard to replace, importers will try to increase stock, if possible, for the time being. Regardless of the product nature, the strike has halted normal trade and the absolute US export volume has already decreased. If another strike occurs, US export volume will again be adversely affected.

Table

(In thousands of dollars)	U.S. exports to HK Jan - Dec, 2001	U.S. exports to HK Oct, 2001	Average daily U.S. exports to HK based on Oct. 2001 statistics
Agricultural& Food Total	1,388,335	138,715	4,475
Poultry Meat	220,828	19,645	634
Fresh Fruit	170,014	18,134	585
Red Meats	94,618	9,998	323
Fresh Vegetables	11,957	918	30
Soybean Meal	3,473	296	10

Source : U.S. Trade Statistics (Source for soybean meal is World Trade Atlas)